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SUBJECT: LESOTHO MAY 2007 ECONOMIC ROUNDUP: DIAMONDS, CORN, FISCAL
POLICY, AND LAUNDERING

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[1](#)1. SUMMARY:

- Analyst: Fiscal Policy and Tax Base Key in Lesotho;
- Diamond Mining in Lesotho: Implications;
- Money Laundering Task Force Meets in Maseru; and
- Lesotho's Maize and Sorghum Harvest Fails.

END SUMMARY.

Analyst: Fiscal Policy and Tax Base Key in Lesotho

[1](#)2. On April 18, Standard Bank Lesotho hosted an economic briefing by Mr. Jan Duvenage, a representative from Standard Bank South Africa's Economics Division for African Research. He evaluated the country's fiscal policy, concluding that Lesotho's fiscal policy is crucial for macroeconomic stability and growth given the Lesotho Loti's peg to the South African Rand. Duvenage asserted that although Lesotho has maintained a sound fiscal policy and healthy foreign current reserves, the country is too dependant on South African Customs Union (SACU) revenue sharing payments which are not permanent, making the country vulnerable to external shocks. Therefore, the country should broaden its tax base and improve its tax administration to reduce this dependence. Also, an increase in capital expenditures is needed to develop infrastructure essential for economic growth.

[1](#)3. Highlighting Lesotho's fiscal surpluses from 2003 to present (largely attributed to increased revenue sharing payments from the SACU), he noted that Lesotho's foreign debt had fallen from 81% of GDP to 47.2% of GDP between 2002 and 2006. Nevertheless, Duvenage maintained that Lesotho's fiscal policy still needs improvement due to its narrow tax base, weak tax administration,

and service delivery constraints. He cited the underdevelopment of financial markets, low rates of capital expenditure, and the high levels of wage payments due to a large civil service (14% of GDP compared to the Sub-Saharan average of 6.1%) as factors holding back Lesotho's growth.

Diamond Mining in Lesotho: Implications

¶4. Recent diamond prospecting licenses granted for Lesotho's Kolo and Mothae regions underscore the growth in the nation's mining industry following the recent find of the world's 15th largest uncut stone in Lesotho. Lesotho's two existing diamond mines, located at Letseng and Liphobong, have already substantially impacted the nation's economic output and currently account for 7% of GDP. Diamond production rose by 83.7% in 2005 and 103.8% in 2006, and the sub-sector is expected to continue to grow as mines progress towards full production levels.

¶5. The industry is already having a macroeconomic impact. Diamonds exports have improved Lesotho's balance of payments, and the nation's net foreign reserves currently equal US\$564 million, providing five months of import cover. The GOL's 8% royalty from mining dividends also has an important impact on government finance. On the labor front, unskilled mine labor is typically recruited locally, while professional staff is recruited nationwide, helping to mitigate Lesotho's high unemployment rate.

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¶6. The rebounding mining industry is likely to enhance the welfare of local communities in mining regions through employment opportunities and access to infrastructure such as roads, water, and electricity. However, it is uncertain how effective governmental measures intended to reduce poverty will be. Skills development, technology transfer, and corporate social responsibility will remain issues for the industry as it continues to grow.

Money Laundering Task Force Meets in Maseru

¶7. The International Organization of Supreme Audit Institutions' (INTOSAI) task force on international money laundering held its fifth meeting in Maseru on April 24-25, ¶2007. The task force's main objectives are to: 1) promote international cooperation in the fight against money laundering; 2) monitor and report on the extent of international cooperation on money laundering issues; 3) share strategies for combating money laundering; and 4) create anti-money laundering training opportunities. The INTOSAI task force is made up of nine countries, including: the United States, Peru, the United Kingdom, Fiji, Lesotho, Russia, Papua New Guinea, Egypt, and Libya. (NOTE: According to GOL officials, a representative from the U.S. General Accounting Office participated in this event. However, Embassy Maseru received no briefing or country

clearance request. END NOTE.)

18. Lesotho's "Bill on Money Laundering," drafted in 2004, has still not been passed into law. Thus, Lesotho still has no legal framework regarding money laundering. While Lesotho's active participation in INTOSAI's money laundering task force is a positive step, the nation's potential progress on money laundering issues appears doubtful without a legal anti-laundering framework in place.

Lesotho's Maize and Sorghum Harvest Fails

19. According to a pre-harvest assessment conducted by Lesotho's Disaster Management Authority and sponsored by the World Food Program, Lesotho's domestic agricultural production in 2007 will meet only 15-20% of the basic food needs of the country. The study states that a 25% or greater increase in the price of maize, a basic staple in Lesotho, is expected. The country is expecting a decrease of 14% in maize area harvested and a 10% decrease in the maize yield, leading to a 39% total decrease in maize production. Also, 42% less sorghum is expected to be produced this year than last. The problem is most severe in the northern lowlands - a traditional breadbasket region for Lesotho.
MURPHY